

STALLION CAPITAL MANAGEMENT

THE STALLION TEXAS REAL ESTATE FUND

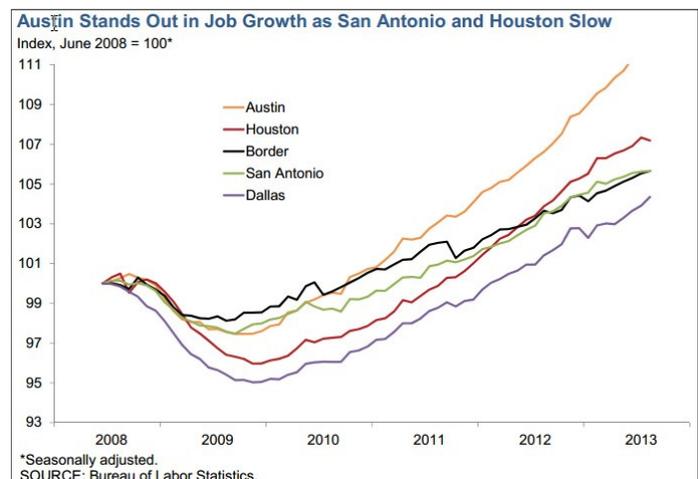
FOURTH QUARTER, 2013

QUARTERLY REPORT

In 2013, investors witnessed a historic surge in performance of many of the major asset classes. The stock market particularly experienced a dramatic year, with the S&P 500 index increasing 29.6% in value. This marks the largest single-year gain in sixteen years. This “bull market” was also supported by an improving national economy and unprecedented stimulus by the Federal Reserve. Nationally, we observed a similar phenomenon (although much more modest) in the real estate markets. The Moodys/RCA Price Index for all properties in the third quarter was higher by 13.6% when compared to the same time the previous year. In many of the “major markets”, prices have recovered to their 2007 peak. However, in other geographic areas that would be considered second-tier, prices are still well below their peak and investors are beginning to seek opportunity in areas that are further from the “mainstream”. When looking at Commercial properties, we see a similar result, with prices rising 8.4% (COSTAR Commercial Price Index). Within the Commercial sector, retail properties showed the strongest gains, increasing by 12.6%, followed by Office at 8.7%, on a national level. These increased valuations have attracted new investors into the real estate space, particularly to single-family residential homes. In fact, one in every five homes sold nationwide was purchased by an investor. However, with inventories shrinking and fewer foreclosures, these investor purchases seem likely to slow.

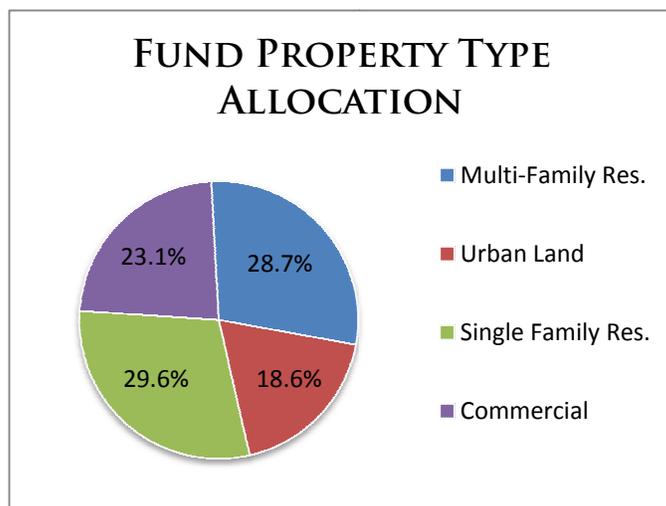
TEXAS REAL ESTATE REVIEW

The fourth quarter of 2013 further underscored the growth in Texas witnessed throughout the earlier part of the year. The robust job market and affordable cost of living continues to attract new residents to Texas and with that increase in population comes higher real estate prices and in some cases, even a property shortage. The inventory of homes for sale continues to be quite low in many of the metro areas throughout the state. Experts consider a six-month inventory to be at equilibrium, meaning neither a “buyers” nor “sellers” market. Statewide, we are currently at a four month inventory, which leads to higher prices overall and more aggressive bidding on homes for sale. Following the national trend, Texas residents continue to view renting vs. buying as an attractive option. In the Austin market, the multi-family vacancy rate hovers in the mid-4% range, which is 1.5% lower than the national average. Not surprisingly, we see rents rising as a result, averaging a 1.2% rent increase per quarter. Even with the increased growth throughout the state, we believe there is still room to move higher and continue to see many exciting opportunities on real estate.



FUND COMMENTARY

Our Texas Real Estate Fund has benefited from the strong Texas real estate market. **The Fund had a very strong quarter, returning 2.70% (annualized return of 11.3%).** While we won't likely see the heady performance experienced by the stock market, we also sleep better at night with the risk/return profile of the Fund and the underlying hard assets that it invests in. We have been, and continue to be, big fans of the hard asset, income producing approach, which in our case are 1st liens on Texas-based real estate. We prefer this asset class and our conviction has only grown over time that this Fund presents an amazing opportunity for our investors. The Fund originated (or purchased) three new loans within the quarter, bringing the total number of loans in the Fund to fifteen. Our fund diversification by property type increased significantly during the quarter. We positioned the portfolio with a more balanced approach and increased our allocation to Multi-Family and Commercial and reduced our overweight position in the Single-Family Residential sector. Our weighted average Loan-to-Value ratio across the portfolio at year end was 57.19%. Our geographic allocation is still weighted heavily towards Austin (78%) but we are looking to add loans in the other metro areas of Texas to further diversify our product. With the strong Texas economy, we continue to see significant new deal flow and expect this to continue for the foreseeable future. The aggregate assets under management (AUM) in the Fund at year end is \$3.3 million. We are very pleased with the current portfolio and believe it to be well positioned going forward.



As a reminder, the Fund is an "evergreen" fund, which means that it is perpetually open to new investors and also open to current investors to add to their initial investment at any time. We are finding very attractive loans in the market and the Fund is an ideal place to take advantage of these deals. If you have interest, we are happy to share more information about the Fund and provide you with additional documentation.

We want to thank our Fund investors for their continued partnership and as always, we are here to answer any questions you may have.

Sincerely,

Jonathan Sempson, Vincent Balagia & the Stallion Team